

Reserve is using the "pension cost credit" to lower the prices it charges banks for these services. That is, it is effectively using a portion of the large surplus in its pension fund to reduce the operating costs of its priced service activities, which in turn enables it to charge lower prices than it otherwise would.

Let me explain specifically how it works. At the end of 1996, the pension fund for the employees of the Federal Reserve System had excess funding of \$1.9 billion. This incredible excess, nearly double its pension liability, is due primarily to the so-called irrational exuberance of the stock market.

The Fed then uses an accounting device to effectively take a portion of this excess funding in the pension fund to create an expense offset. This is the pension cost credit.

Instead of sending the whole of this cost credit back to the Treasury, the Fed uses approximately one-third of it to reduce the expenses of its priced services. That reduction then allows the Fed to charge lower prices than it otherwise would.

Mr. Speaker, I submit for the RECORD a letter that Federal Reserve Vice-Chairwoman, Alice Rivlin, sent to me. The letter referred to is as follows:

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, DC, October 3, 1997.

Hon. CAROLYN B. MALONEY,
House of Representatives
Washington, DC.

DEAR CAROLYN: I am pleased to forward additional materials in response to your letter of September 5 regarding payments system issues. Please let me know if I can be of further assistance.

Sincerely,

ALICE M. RIVLIN,
Vice Chairman.

Enclosures.

FEDERAL RESERVE BOARD STAFF'S ADDITIONAL RESPONSES TO CONGRESSWOMAN MALONEY'S SEPTEMBER 5, 1997, QUESTIONS

1. Please send a monthly record of ITS cost-recovery matching before and after the application of the private sector adjustment factor for the years 1990 to date.

Internal reports from the Federal Reserve Bank of Boston that showed monthly cost recovery numbers for 1987 through early 1995 were enclosed with Chairman Greenspan's letter of April 28, 1995, to Congressman Gonzalez.

Attachment 1 shows monthly cost recovery for commercial check portion of the ITS network from 1995 through the first half of 1997. The Federal Reserve does not typically allocate imputed costs and revenues to input components of its services. As requested, the cost recovery data are shown with and without imputed expenses.

2. Please supply a breakdown of prices services income, by Federal Reserve Bank for 1996. The breakdown should include revenue by specific commercial check product, such as NCS, RCPC, fine sort, consolidated shipments, and direct sends.

The priced services income for 1996 and the first two quarters of 1997, which you requested in question 5, was provided in Vice Chair Rivlin's letter of September 16, 1997.

Attachment 2 shows the Reserve Banks' revenues for the Reserve Bank check products you requested. Revenue for consolidated shipments includes only transportation reve-

nues based on ITS surcharges. Consolidated shippers, that is, banks that use ITS to ship checks to a nonlocal Reserve Bank office for processing, use a wide variety of checks products. We do not separately track and identify the products into which these shipments are deposited and, therefore, cannot provide the associated revenue data. Similarly, we do not separately track the check processing revenue associated with "direct send" deposits shipped to the Reserve Banks by banks that arrange for their own transportation.

3. How is the Federal Reserve's pension cost credit (\$140.57 million for 1996) reflected in (a) measurement of priced services profitability and (b) in the pricing of specific priced services, such as check processing and transportation? What accounts for the \$63 million difference in 1996 between operating expenses for priced services, as reported on page 271 of the 1996 Annual Report of the Board of Governors and the sum of the operating expenses reported in the 1996 PACS Expense report. Please supply financial reports for the Federal Reserve pension plan(s) for 1992 through 1996.

The System endeavors to capture all of its costs applicable to the provision of priced services into its pricing formula and measurements of its profitability through explicit recognition in the Reserve Banks' cost accounting systems or through implicit allocations where appropriate. For transactions relating to the provision of priced services, the Federal Reserve System applies generally accepted accounting practices (GAAP). Prior to changes in GAAP in 1987 and 1993 for employers accounting for pensions and retiree medical benefits, respectively, the System accounted for these costs on a cash, or "pay as you go" basis. The System, like other services providers, changed accounting practices to conform to GAAP. This change resulted in the recognition of a pension asset that generates net credits and a retiree medical liability that generates net expenses for the System.

As with any accounting change, the System compared the effect of the GAAP changes with the effect on the largest bank holding companies used in determining the PSAF. We believe that the System's pricing formula properly recognizes the effect of these changes to GAAP. My staff can provide you or your staff with additional detail on the technical issues involved with these GAAP changes at your convenience.

The table below shows a reconciliation, for 1996, of operating expenses as reported in PACS with the pro forma financial statement in the Federal Reserve's 1996 Annual Report.

PACS Expense to Pro Forma Expenses for 1996

PACS operating expenses	(Millions)
Cash (3020)	\$5.1
Funds (3250)	71.6
ACH (3260)	83.9
Check (3360)	551.4
Book-Entry (3520)	43.3
Non-Cash (3810)	4.6

Total PACS expenses	760.0
Less non-priced costs	(51.5)

Priced PACS costs 708.5

Pro forma items not in PACS:

Proceed pension credit	(45.3)
Imputed Board expenses	2.8

Total items not in PACS (42.5)

Pro forma operating expenses .. 666.0

The letter shows that, in 1996, the pension cost credit was \$45.3 million.

This is \$45 million of taxpayer money which the Fed should have returned to the Treasury, but instead, it used this sum to artificially cut its prices. This is \$45 million which, instead of going towards deficit reduction, went to help the Fed undercut its private sector competitors, many of whom they also regulate.

Any other agency of the government cannot justify using a pension cost credit to subsidize their own prices.

Mr. Speaker, as the only source of oversight for the Federal Reserve, Congress has a duty to police this activity in the Federal Reserve.

We must recognize that there is inherent conflict with the Fed being both the regulator and the largest competitor in check processing. This is why we need to pass legislation which clarifies the Fed's role and relationship with the private sector, such as my own bipartisan bill, H.R. 2119, "The Efficient Check Clearing Act."

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The SPEAKER pro tempore (Mr. NEY). Under a previous order of the House, the gentleman from Alabama (Mr. RILEY) is recognized for 5 minutes.

(Mr. RILEY addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas (Ms. JACKSON-LEE) is recognized for 5 minutes.

(Ms. JACKSON-LEE of Texas addressed the House. Her remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Tennessee (Mr. JENKINS) is recognized for 5 minutes.

(Mr. JENKINS addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Mississippi (Mr. THOMPSON) is recognized for 5 minutes.

(Mr. THOMPSON addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Pennsylvania (Mr. KLINK) is recognized for 5 minutes.

(Mr. KLINK addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

SCHOOL CONSTRUCTION

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from California (Ms. MILLENDER-MCDONALD) is recognized for 5 minutes.

Ms. MILLENDER-MCDONALD. Mr. Speaker, as we celebrate African American History Month and those of us

who are not African Americans recognize the importance of education, we further recognize the importance of facilities that are conducive to learning for those young people who are in the inner city. So, Mr. Speaker, today I rise to address the need for school construction and repair throughout the country, but, most importantly, in the inner cities, and especially in the 37th Congressional District, which I represent.

Mr. Speaker, today's youth cannot learn in an environment that is surrounded with decrepit walls, that are crumbling from neglect, roofs that are leaking into classrooms, broken windows that have not been repaired for months on end, buildings that are painted with toxic levels of lead paint, and the list goes on.

These young students face the hazards of asbestos, poor indoor air quality, nonexistent air conditioning systems and heating units which barely warm the buildings throughout the winter months. These schools are literally in decay.

Mr. Speaker, these are the schools that represent the inner city that our children are asked to be educated in.

Mr. Speaker, we all know the critical importance of placing our children and the Nation's children in an environment that is conducive to learning. The Los Angeles Unified School District, the second largest public school district in the country and where I served as an educator for several, is one of the many public schools in need of school repair.

In the entire State of California, 87 percent of schools report a need to upgrade or repair on-site buildings to just good condition, and the majority of these schools are in the inner city. Seventy-one percent of all California schools have at least one inadequate building feature, ranging from lead paint to lack of heating units.

So today I ask my colleagues to think about the larger issue when it comes to educating our children. I ask my colleagues to consider the more than 60 percent of the Nation's 110,000 public, elementary and secondary school facilities that need major repair in order to function as an effective education institution.

This Nation's youth not only deserve it, but they cry out for schools that represent a conducive learning environment. Mr. Speaker, this must be at the top of our priority as we begin the second session of the 105th Congress.

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Florida (Mrs. MEEK) is recognized for 5 minutes.

(Mrs. MEEK addressed the House. Her remarks will appear hereafter in the Extensions of Remarks.)

AFRICAN AMERICANS IN BUSINESS: THE PATH TOWARDS EMPOWERMENT

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Florida (Ms. BROWN) is recognized for 5 minutes.

Ms. BROWN of Florida. Mr. Speaker, as African-Americans, we have known for quite some time that our professional and personal achievements would come through business ownership and participation in the economy. 'The path towards empowerment' has been a struggle, but we are seeing the rewards.

The 'path toward empowerment' begins with a sound education and personal commitment. With these key ingredients, our young men and women can achieve their goals and make a difference in the areas of science, business, finance, and education.

I am pleased to recognize Bethune Cookman College as a school in my district that is building a state of the art hospitality center for minorities. I have testified for several years to get funding for the Mary McLeod Bethune Fine Arts/Hospitality Training Center, which will create an economic stimulus from Jacksonville to Orlando. The Center will train minorities for management and leadership positions in Florida's tourism industry.

Historically, African-Americans have been limited to non-management positions in the tourism industry. This complex once finished will provide hands-on hospitality management training for careers in the hotel, restaurant, tourism, business travel, conference and convention industries.

The center will not just be a complex of classrooms and training facilities—it will be a tribute to one of America's foremost champions of civil rights and public education for African-Americans.

In addition to mentioning Mary McLeod Bethune, I would also like to mention the literary contributions of Zora Neale Hurston an Eatonville, FL native who represents a dominant voice of the Harlem Renaissance period. Hurston was a prolific writer, and her writing style has inspired famous poets and novelists. Her contributions to the twenty-first century have inspired the Zora Neale Hurston Society at Morgan State University and the annual Zora Neale Hurston Festival of Arts and Humanities in Eatonville.

African-American, men and woman, have carved a noticeable place in the fabric of our Nation. And, heroic pioneers like Mary McLeod Bethune and Zora Neale Hurston represent famous Americans who have shaped and enriched our lives. Their legacy lives on and generations to come will be educated and nurtured at Mary McLeod Bethune/Cookman College, and ambitious young writers will read Zora Neale Hurston's novel "Their Eyes Were Watching God" for inspiration and literary guidance.

Note that the heroines I have referenced are just a fraction of the great African-Americans who have shaped this country. Their contributions laid the foundation for myself and younger generations.

In closing, I would like to recognize Historically Black Colleges and Universities (HBCUs) like, Bethune Cookman College, Edward Waters College, and Florida Agricultural and Mechanical University—located in Florida—be-

cause they represent a light of hope for young African-American men and women. These colleges and universities represent approximately 3 percent of American institutions of higher learning, but they award one-third of all bachelor's degrees as well as a large share of graduate degrees earned by African-Americans every year.

Our HBCUs protect, support, educate, and nurture students and they give them the tools needed to compete in business and life.

As we approach the twenty-first century, I know HBCUs across America will continue to be a light of hope for young African-Americans traveling on their paths toward independence and financial empowerment.

In my opinion, this special order passes on the light of hope to young African-Americans and beckons them to continue their quest for knowledge and wisdom.

TRIBUTE TO GENERAL BENJAMIN O. DAVIS

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Arkansas (Mr. SNYDER) is recognized for 5 minutes.

Mr. SNYDER. Mr. Speaker, February has for some time now been recognized as Black History Month, during which time we recognize the contributions of African Americans throughout the United States and throughout the world.

As a member of the Committee on National Security, I want to call attention tonight to General Benjamin O. Davis, Jr., one of our American heroes, one of the true contributors to the end of World War II, and the contributions of the military in the world for 20 years after that.

General Davis was the first black graduate of West Point. As we now have become familiar with our military academies and the fine opportunities for education, the opportunities for men and women of all races in America to participate in the military and have long and distinguished careers, we also pay attention to the fine collegial atmosphere at the military academies.

When General Davis first went to West Point, that was not the situation. Many of us are familiar with the terrible time and hazing he was given there. He literally spent four years with no other member of West Point being allowed to speak to him, not one word. But he graduated from West Point and went on to have a long and distinguished career.

As a Member of Congress, we get to participate in helping to make nominations. We get to send in names of candidates to the different military academies. It is a tremendous opportunity for men and women in America to take on a very distinguished career in the military.